

## A Kantian Approach to Business Ethics

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Even the most cursory foray into business ethics will bring one face to face with Kantianism. Indeed Kant's influence on that branch of ethical theory known as deontology is so strong that some writers simply refer to deontology as Kantianism. Despite the fact that Kant's name is often invoked in business ethics, as of 1997 there was no published book that systematically applied Kantian theory to business. (However, Bowie (1999) fills this gap.) Kant is best known for defending a version of the "respect for persons" principle which implies that any business practice that puts money on a par with people is immoral, but there is much more to a Kantian approach to business ethics than this. In this essay, I focus on some of the implications of Kant's three formulations of the fundamental principle of ethics. I then show why Kant's emphasis on the purity of our intentions in acting morally has created problems for a Kantian theory of business ethics.

### BACKGROUND

Kant was born in 1724 in Konigsberg in East Prussia, not far from the Baltic Sea. He spent his entire life within 26 kilometers of Konigsberg and died there in 1804. Today, Konigsberg is located in a small strip of Russian territory between Poland and Lithuania, and is called Kaliningrad. Kant's major writings on ethical theory occurred between 1785 and 1797. Kant argued that the highest good was the good will. To act from a good will is to act from duty. Thus, it is the intention behind an action rather than its consequences that make that action good. For example, for Kant if a merchant is honest so as to earn a good reputation, these acts of being honest are not genuinely moral. The merchant is only truly moral if he or she is honest because being honest is right (one's duty). Persons of good will do their duty because it is their duty and for no other reason. It is this emphasis on duty, and the lack of concern with consequences, that makes Kant the quintessential deontologist.

But what does Kantian morality think our duties are? Kant distinguished between two kinds of duty (imperatives). Sometimes we do something so that we may get something else. We go to work to earn money or study to earn good grades. If you want good grades, you ought to study. Kant referred to this kind of duty as a hypothetical imperative because it is of the form if you want to do x, do y. The duty to study is dependent on your desire for good grades.

Other duties are required *per se*, with no ifs, ands or buts. Kant described these duties as categorical and referred to the fundamental principle of ethics as the categorical imperative. He believed that reason provided the basis for the categorical imperative, thus the categorical imperatives of morality were requirements of reason. Although Kant spoke of "the" categorical imperative, he formulated it in many ways. Most commentators focus on three formulations:

1. Act only on maxims which you can will to be universal laws of nature.
2. Always treat the humanity in a person as an end, and never as a means merely.
3. So act as if you were a member of an ideal kingdom of ends in which you were both subject and sovereign at the same time.

Kant believed that only human beings can follow laws of their own choosing (i.e., act rationally). Human beings are the only creatures that are free, and it is the fact that we are free that enables us to be rational and moral. Our free will is what gives us our dignity and unconditioned worth.

Kant's ethics then is an ethics of duty rather than an ethics of consequences. The ethical person is the person who acts from the right intentions. We are able to act in this way this because we have free will. The fundamental principle of ethics, the categorical imperative, is a requirement of reason and is binding on all rational beings. These are the essentials of Kant's ethics. Let us see how they apply, specifically, to business ethics.

## THE SELF-DEFEATING NATURE OF IMMORAL ACTIONS

Kant's first formulation of the categorical imperative is "Act only on that maxim by which you can at the same time will that it should become a universal law." Although the phrasing is awkward, Kant is providing a test to see if any proposed action, including actions in business, is moral. Since Kant believed that every action has a maxim, we are to ask what would happen if the principle (maxim) of your action were a universal law (one that everyone acted on). Would a world where everyone acted on that principle be possible? One example Kant used to illustrate his theory was a business one.

Suppose you desperately needed money. Should you ask someone to lend you money with a promise to pay the money back but with no intention of paying it back? Do your extreme financial circumstances justify a lying promise? To find out, Kant would require us to universalize the maxim of this action: "It is morally permissible for anyone in desperate financial circumstances to make a lying promise, that is, to promise to repay borrowed money with no intention of doing so." Would such a universalized maxim be logically coherent? Kant (1990, p. 19) answers with a resounding no.

And could I say to myself that everyone may make a false promise when he is in a difficulty from which he cannot escape? Immediately I see that I could will the lie but not a universal law to lie. For with such a law there would be no promises at all, inasmuch as it would be futile to make a pretense of my intention in regard to future actions to those who would not believe this pretense or - if they over hastily did so - would pay me back in my own coin. Thus my maxim would necessarily destroy itself as soon as it was made a universal law.

Notice what Kant is not saying here. He is not saying that if everyone made lying promises, the consequences would be bad-although they would. Rather, Kant is saying that the very concept of lying promises, when adopted as a principle by everyone, is incoherent.

Thus the categorical imperative functions as a test to see if the principles (maxims) upon which an action is based are morally permissible. The action can only be undertaken if the principle on which the action is based passes the test of the categorical imperative. A business manager who accepts Kantian morality would ask for any given decision, does the principle on which the decision is based pass the test of the categorical imperative, that is, can it be willed universally without contradiction? If it can, then the decision would be morally permissible. If it cannot, the action is morally forbidden.

Let us consider two other examples to illustrate Kant's point. First, theft by employees, managers, and customers is a major problem in business. Suppose that an employee, angry at the boss for some justified reason, considers stealing from the firm. Could a maxim which permitted stealing be universalized? It could not. Because goods and services are in limited supply and universal collective ownership is impossible, the institution of private property has developed. If a maxim that permitted stealing were universalized, there could be no private property. If everyone were free to take from everyone else, then nothing could be owned. Given the practical necessity of some form of private property, a universalized maxim that permitted stealing would be self-defeating. Thus, if the employee steals from the boss, the theft is morally wrong.

Another example found in the press concerns companies that try to renegotiate contracts. A favorite ploy of General Motors, especially with Jose Lopez in charge, was to demand price reductions from negotiated contracts with suppliers. In this way, General Motors cut costs and contributed to its bottom line. Would such a tactic pass the test of the categorical imperative? No, it could not. If a maxim that permitted contract breaking were universalized, there could be no contracts (and contracts would cease to exist). No one would enter into a contract if he or she believed the other party had no intention of honoring it. A universalized maxim that permitted contract breaking would be self-defeating...

The test of the categorical imperative becomes a principle of fair play. One of the essential features of fair play is that one does not make an exception of oneself. For example, Kant (1990, p. 41) says:

When we observe ourselves in any transgression of a duty, we find that we do not actually will that our maxim should become a universal law. That is impossible for us; rather the contrary of this maxim should remain as the law generally, and we only take the liberty of making an exception to it for ourselves or for the sake of inclination, and for this one occasion. Consequently, if we weighed everything from one and the same standpoint, namely reason, we would come upon a contradiction in our own will, viz., that a certain principle is objectively necessary as a universal law and yet subjectively does not hold universally but rather admits exceptions.

Thus the categorical imperative captures one of the key features of morality. Unless the principle of your action can be universalized, to make an exception for yourself is immoral.

I have frequently used these arguments with executives who may find them theoretically persuasive but who, nonetheless, think that their practical application is limited in the real world of business. They point out that, in the real world, contracts are often "renegotiated" and yet business people still engage in contract-making.

These executives raise an interesting point. However, an examination of what goes on in the business world does more to vindicate Kant than to refute him. Consider the following real-world situations.

- When on vacation in Ocean City, Maryland, my favorite seafood outlet had a large sign on the wall saying, "We do not cash checks and here is why." Below the sign and nearly covering the entire wall were photocopies of checks that had been returned with "Returned: Insufficient Funds" stamped in large letters. At least in this retail outlet, a threshold had been crossed. A sufficiently large number of customers wrote bad checks so that it was no longer possible to use checks in that retail store. Suppose a maxim permitting writing checks without sufficient funds in the bank to cover them was really universalized. There would be no institution of check writing.
- While lecturing in Poland in 1995, I was informed that, shortly after the fall of communism, there was a bank collapse because people did not pay on their loans. And experts generally agree that one of the impediments to the development of capitalism in Russia is the failure of various parties to pay their bills. A supplier is reluctant to provide a product if it is not known if and when payment will be received.

- Finally, there has been considerable speculation regarding the future of capitalism in Hong Kong now that the Chinese have regained sovereignty there. As business commentators have pointed out, Hong Kong had developed a legal system that enforced business contracts and limited the influence of politics. In China, political influence plays a much greater role. If the tradition of legal enforcement that has been developed is undermined, can Hong Kong survive as a thriving prosperous major center of business practice? A Kantian would agree with the economists here. Hong Kong would lose its premier standing as a commercial center and would suffer economically...

Thus the categorical imperative is not irrelevant in the world of business. If a maxim for an action when universalized is self-defeating, then the contemplated action is not ethical. That is Kant's conceptual point. And when enough people behave immorally in that sense, certain business practices like the use of checks or credit become impossible.

## TREATING STAKEHOLDERS AS PERSONS

Since human beings have free will and thus are able to act from laws required by reason, Kant believed they have dignity or a value beyond price. Thus, one human being cannot use another simply to satisfy his or her own interests. This is the core insight behind Kant's second formulation of the categorical imperative: "Always treat the humanity in a person as an end and never as a means merely." What are the implications of this formulation of the categorical imperative for business?

First, it should be pointed out that the "respect for persons" principle, as I shall call it, does not prohibit commercial transactions. No one is used as merely a means in a voluntary economic exchange where both parties benefit. What this formulation of the categorical imperative does is to put some constraints on the nature of economic transactions.

To understand Kant fully here, we need to draw a distinction between negative freedom and positive freedom. Negative freedom is freedom from coercion and deception. Kant scholar Christine Korsgaard (1996, pp. 140-1) has put it this way:

According to the Formula of Humanity, coercion and deception are the most fundamental forms of wrongdoing to others - the roots of all evil. Coercion and deception violate the conditions of possible assent, and all actions which depend for their nature and efficacy on their coercive or deceptive character are ones that others cannot assent to... Physical coercion treats someone's person as a tool, lying treats someone's reason as a tool. That is why Kant finds it so horrifying: it is a direct violation of autonomy.

However, simply refraining from coercive or deceptive acts is not sufficient for respecting the humanity in a person. Additional requirements can be derived from Kant's view of positive freedom. Positive freedom is the freedom to develop one's human capacities. For Kant, that means developing one's rational and moral capacities. In interacting with others, we must not do anything to diminish or inhibit these uniquely human capacities.

Thus, treating the humanity in a person as an end, and not as a means merely, in a business relationship requires two things. First, it requires that people in a business relationship not be used, i.e., they not be coerced or deceived. Second, it means that business organizations and business practices should be arranged so that they contribute to the development of human rational and moral capacities, rather than inhibit the development of these capacities. These requirements, if implemented, would change the nature of business practice. A few examples are in order.

Americans have been deeply concerned about the massive layoffs created by the downsizing of corporations in the early and mid-1990s. Are these layoffs immoral? A naive Kantian response would label them as immoral because, allegedly, the employees are being used as mere means to enhance shareholder wealth. However, that judgment would be premature. What would be required from a Kantian perspective is an examination of the employer/employee relationship, including any contractual agreements. So long as the relationship was neither coercive nor deceptive, there would be nothing immoral about layoffs.

What is highly contested is whether or not the standard employer/employee relationship is coercive and/or deceptive. Employers tend to argue that employees are well aware of the possibility of layoffs when they take a position and, furthermore, that employees have the right, which they frequently exercise, to take positions elsewhere. There is neither deception nor coercion in either standard labor contracts or in the implicit norms governing the employer/employee relationship. On the other hand, many employees argue that, in times of relatively high unemployment and job insecurity, employees really must accept job offers on management terms. You take what you can so as to eat, but you do not accept the threat of a layoff to enhance shareholder wealth freely. Moreover, in many companies, such as IBM, there had been a long tradition of job security in exchange for employee loyalty. The sudden unilateral changing of the rules amounted to both deception and coercion on the part of management, or so it is argued. An examination of these opposing arguments would take us far beyond the scope of this essay. However, by framing the issue in terms of whether or not coercion and/or deception has occurred, one has adopted a Kantian approach to business ethics.

Another concern about contemporary business practice is the extent to which employees have very limited knowledge about the affairs of the company. In economic terminology, there is high information asymmetry between management and the employees. Wherever one side has information that it keeps from other side, there is a severe temptation for abuse of power and deception. A Kantian would look for ways to reduce the information asymmetry between management and employees.

In practical terms, a Kantian would endorse the practice known as open book management. Open book management was developed by Jack Stack at the Springfield Manufacturing Company. Stack and his company won a prestigious business ethics award for the technique. Under open book management, all employees are given all the financial information about the company on a regular frequent basis. With complete information and the proper incentive, employees behave responsibly without the necessity of layers of supervision.

How does open book management do what it does? The simplest answer is this. People get a chance to act, to take responsibility, rather than just doing their job... No supervisor or department head can anticipate or handle all situations. A company that hired enough managers to do so would go broke from the overhead. Open book management gets people on the job doing things right. And it teaches them to make smart decisions... because they can see the impact of their decisions on the relevant numbers (Case, 1995, pp. 45-6).

The adoption of practices like open book management would go far toward correcting the asymmetrical information that managers possess, a situation that promotes abuse of power and deception. Under open book management, if a firm faced a situation that might involve the layoff of employees, everyone in the firm would have access to the same information. Deception would be very difficult in such circumstances. Suspicion would be less and, as a result, cooperative efforts to address the problem would be more likely.

Open book management also enhances employee self-respect. Employees at Springfield Manufacturing Company use Kantian "respect for persons" language when describing the impact of open book management on working conditions. Thus, open book management lessens the opportunity for deception and supports negative freedom.

By enhancing employee self-respect, open book management supports positive freedom as well. What are the implications of Kant's theory of positive freedom for business practice? To treat the humanity in a person as an end in itself sometimes requires that we take some positive action to help a person. This is required by the "respect for persons" formulation of the categorical

imperative, by some of Kant's own writing on the nature of work, and by the demands of Kant's imperfect duty of beneficence to help others.

The requirement that business practice be supportive of positive freedom has wide implications for business practice. I will focus on only one implication here. I believe Kant's moral philosophy enables business ethicists to develop a useful definition of meaningful work and that Kantian ethics would require companies to provide meaningful work so defined. Although I cannot cite all the Kantian texts in this brief essay, I think the following conditions for meaningful work are consistent with Kant's views. For a Kantian, meaningful work:

- is freely chosen and provides opportunities for the worker to exercise autonomy on the job;
- supports the autonomy and rationality of human beings; work that lessens autonomy or that undermines rationality is immoral;
- provides a salary sufficient to exercise independence and provide for physical well-being and the satisfaction of some of the worker's desires;
- enables a worker to develop rational capacities; and
- does not interfere with a worker's moral development.

(Notice that these requirements are normative in the sense that they spell out what meaningful work ought to be. There is no requirement that workers who are provided meaningful work must themselves subjectively experience it as meaningful.)

A manager taking the Kantian approach to business ethics would regard providing meaningful work as a moral obligation. Some management attitudes and practices are more conducive toward meeting this obligation than others. Thus, Kantian managers need to create a certain kind of organization. A discussion of what a Kantian business firm would look like leads directly to a discussion of the third formulation of the categorical imperative.

## THE BUSINESS FIRM AS A MORAL COMMUNITY

Kant's third formulation of the categorical imperative roughly says that you should act as if you were a member of an ideal kingdom of ends in which you were both subject and sovereign at the same time. Organizations are composed of persons and, given the nature of persons, organizational structures must treat the humanity in persons with dignity and respect (as an end). Moreover, the rules that govern an organization must be rules that can be endorsed by everyone in the organization. This universal endorsement by rational persons is what enables Kant to say that everyone is both subject and sovereign with respect to the rules that govern them. I believe a Kantian approach to the organizational design of a business firm would endorse these principles:

1. The business firm should consider the interests of all the affected stakeholders in any decision it makes.
2. The firm should have those affected by the firm's rules and policies participate in the determination of those rules and policies before they are implemented.
3. It should not be the case that, for all decisions, the interests of one stakeholder automatically take priority.
4. When a situation arises where it appears that the interest of one set of stakeholders must be subordinated to the interests of another set of stakeholders, that decision should not be made solely on the grounds that there is a greater number of stakeholders in one group than in another.
5. No business rule or practice can be adopted which is inconsistent with the first two formulations of the categorical imperative.
6. Every profit-making firm has a limited, but genuine, duty of beneficence.
7. Every business firm must establish procedures designed to ensure that relations among stakeholders are governed by rules of justice.

I think the rationale for most of these principles can be derived from the explanation of Kant's ethics already provided. Principle 1 seems like a straightforward requirement for any moral theory that takes respect for persons seriously. Since autonomy is what makes humans worthy of respect, a commitment to principle 2 is required. Principle 3 provides a kind of organizational legitimacy; it ensures that those involved in the firm receive some minimum benefits from being a part of it. Principle 4 rules out utilitarianism as a criterion for decision-making in the moral firm. The justification for principle 6 is based on an extension of the individual's imperfect obligation of beneficence which Kant defended in the *Metaphysics of Morals*. There Kant (1994, p. 52) says:

That beneficence is a duty results from the fact that since our self-love cannot be separated from our need to be loved by others (to obtain help from them in the case of need), we thereby make ourselves an end for others... hence the happiness of others is an end which is at the same time a duty.

The strategy here is to extend this argument to the corporate level. If corporations have benefited from society, they have a duty of beneficence to society in return. And corporations have benefited. Society protects corporations by providing the means for enforcing business contracts. It provides the infrastructure which allows the corporation to function - such as roads, sanitation facilities, police and fire protection - and, perhaps most importantly, an educated work force with both the skills and attitudes required to perform well in a corporate setting. Few would argue that corporate taxes

pay the full cost of these benefits. Finally, principle 7 is a procedural principle designed to ensure that whatever rules the corporation adopts conform to the basic principles of justice.

A Kantian views an organization as a moral community. Each member of the organization stands in a moral relationship to all the others. On one hand, the managers of a business firm should respect the humanity in all the persons in the organization. On the other hand, each individual in a business firm, managed as a Kantian moral community, should view the organization other than purely instrumentally, that is, as merely a means for achieving individual goals. Organizations are created as ways of achieving common goals and shared ends. An individual who views the organization purely instrumentally is acting contrary to the "respect for persons" principle.

A manager who adopts the Kantian principles of a moral firm must also look at human nature in a certain way. In management terms, the theory Y view of human nature must be adopted rather than a theory X view. [The distinction between theory X and theory Y was made prominent by McGregor (1960).] Theory X assumed that people had an inherent dislike of work and would avoid it if possible. It also assumed that the average person seeks to avoid responsibility. Theory Y assumes the opposite: that employees prefer to act imaginatively and creatively and are willing to assume responsibility. Although we can debate about which theory is descriptively more accurate, as a normative matter a Kantian manager should adopt theory Y. For it is theory Y that views human beings as having the dignity Kant thinks they deserve.

Moreover, both theory X and theory Y have the tendency to become self-fulfilling prophecies. By that I mean that people will tend to behave as they are treated. If a manager treats people in accordance with theory X, employees will tend to behave as theory X predicts. Conversely with theory Y. Thus the question becomes what kind of organization should the manager and the employees, working together, create. For the Kantian, the answer is clear. People should try to create an organization where the participants in the organization behave as theory Y would predict. People should seek to create an organization where members develop their rational and moral capacities, including the capacity to take responsibility.

One of the chief implications of Kant's ethics is that it acts as a moral critique of authoritarian hierarchical organizational structures. Principle 2 demands participation in some form by all the corporate stakeholders, especially stockholders and employees. A Kantian would morally object to a hierarchical structure that requires those lower down to carry out the orders of those above, more or less without question.

Kantian moral theory also requires worker participation: indeed, it requires a vast democratization of the work place. Certainly, a necessary condition of

autonomy is consent given under non-coercive and non-deceptive conditions. Consent also requires that the individuals in an organization endorse the rules that govern them. As a minimum condition of democratization, Kantian moral philosophy requires that each person in an organization be represented by the stakeholder group to which he or she belongs, and that these various stakeholder groups must consent to the rules and policies which govern the organization.

This requirement for a more democratic work place is not purely utopian: it has some support in management theory and in management practice. Teamwork is almost universally praised, and several corporations have endorsed varieties of the concept of participative management. Levi Strauss and Singapore Airlines, to name just two examples, have democratic work places.

I hope I have convinced the reader that Kant's moral philosophy has rich implications for business practice. When the three formulations of the categorical imperative are considered together as a coherent whole, they provide guidance to the manager, both in terms of negative injunctions and positive ideals. The negative injunctions prohibit actions like contract breaking, theft, deception and coercion. The positive ideals include a more democratic work place and a commitment toward meaningful work.

However Kantian ethics is not without its limitations and challenges. Kant had nothing to say about environmental ethics and had little understanding of the suffering of animals and thus held a truncated view of our obligation to animals. But the biggest challenge to the Kantian ethic is that the Kantian ethic is too demanding. Let us consider that objection at greater length.

## THE PURITY OF MOTIVE

It is a central tenet of Kant's moral philosophy that an action is only truly moral if it is morally motivated. Truly moral actions cannot be contaminated by motives of self-interest. Since the good acts of even the most enlightened corporations are almost always justified in part on the grounds that such actions are profitable, it appears that even the best actions of the best corporations are not truly moral. Consider the following quotation from J. W. Marriott Jr. (Milbank, 1996, p. A1) describing the decision of the Marriott Corporation to hire welfare recipients.

We're getting good employees for the long term but we're also helping these communities. If we don't step up in these inner cities and provide work, they'll never pull out of it. But it makes bottom line sense. If it didn't we wouldn't do it.

A strict Kantian could not call Marriott's act of hiring welfare recipients a good act. In Kantian language, the act would be done in conformity with duty but not out of duty. But doesn't that make Kant's theory too austere to apply to business? Several things can be said in response to this question.

We might say that Kant is mistaken about requiring such purity of motive. Yet even if Kant is wrong about the necessity of pure motivation for an act's being moral, he still has a lot to offer the business ethicist. Working out the implications of the three formulations of the categorical imperative provides a rich agenda for the business ethicist. However, a bit more should be said, especially in light of the fact that the general public judges business from a strict Kantian position.

In discussing the issue, people seem to assume that actions that enhance the bottom line are acts of self-interest on the part of the corporation. However, for publicly held corporations and for partnerships, this is not the case. Publicly held corporations have an obligation to make a profit based on their charters of incorporation, legal obligations to shareholders, and an implied contract with the public. It would not be stretching a point too far to say that the managers of a publicly held corporation have promised to strive for profits. If that is so, the position of the Marriott Corporation is a moral one, even for the strict Kantian. The Marriott Corporation is honoring its obligation to realize profits and its obligation of beneficence. Thus, Kant's insistence that an action must be done from a truly moral motive need not undercut acts of corporate beneficence that also contribute to the bottom line.

So far all we have shown is that Kant's insistence on the purity of a moral motive has not made his theory irrelevant to business ethics. But perhaps his insistence on the purity of the moral motive has a positive contribution to make to business ethics and is not simply a barrier to be overcome. Perhaps focusing on issues other than profits, such as meaningful work for employees, a democratic work place, non-deceptive advertising, and a non-coercive relationship with suppliers will actually enhance the bottom line. Many management theorists urge businesses to always focus on the bottom line. However, perhaps paradoxically, profits can be enhanced if we do not focus so exclusively on the bottom line. To put this in more Kantian terms, perhaps profits will be enhanced if the manager focuses on respecting the humanity in the person of all the corporate stakeholders. Perhaps we should view profits as a consequence of good business practices rather than as the goal of business...

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